Saskatchewan Government Insurance Superannuation Plan

2009

ANNUAL REPORT

MESSAGE FROM THE CHAIR

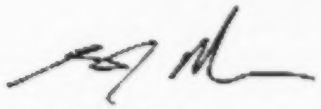
This has been a busy year for the SGI Superannuation Plan Committee with the completion of a number of important documents necessary for plan governance and guiding the Plan's financial performance. For 2009, the Plan experienced a positive return of 11.9%, which is a marked improvement from the prior year.

An extrapolation of the December 31, 2007 actuarial valuation has been performed for accounting purposes for the Plan's audited December 31, 2009 financial statements. At December 31, 2009, the Plan was in a deficit of $703,000 compared to a $2,000 surplus at the end of the prior year.

Plan members should look at these financial statements as information created for financial reporting purposes only. The Superannuation Plan Committee (the Committee) uses two different valuations prepared by the Plan's actuary to evaluate the financial soundness of the Plan: a solvency valuation and a going concern valuation. In considering the 2009 financial results, the Corporation felt it was prudent not to increase pension supplements for 2009. Careful monitoring of the Plan's financial position will continue to be a priority of the Committee.

The Pension Committee has been working diligently for several years on a number of improvements to the Plan's structure and governance. I am pleased to report that the SGI Board of Directors has approved amendments to the Plan Text, a Governance Manual and Funding policy. In addition, the composition of the Pension Committee has changed with the appointment of two SGI managers who bring a wealth of expertise and experience in the areas of pension law, governance and fund investment management.

Pensions to members are guaranteed by the Corporation and in 2010 the Committee will continue their work to ensure the Plan's governance and financial management remains strong.



Ed Helm, Chair
SGI Superannuation Plan Committee

PLAN OVERVIEW

The Contributory Superannuation Plan for the employees of Saskatchewan Government Insurance, commonly referred to as the Saskatchewan Government Insurance (SGI) Superannuation Plan (the Plan) is a pension plan registered under *The Saskatchewan Government Insurance Act, 1980* (the Act), which gives SGI the authority to organize and support the defined benefit pension plan, subject to *The Pension Benefits Act*. The Plan is maintained by SGI for employees who were hired prior to January 1, 1980, and did not elect to transfer to the defined contribution plan.

The Act guarantees members' basic pension regardless of the financial status of the Plan. The Plan is financially sound and holds a well-diversified portfolio of debt and equity investments. Net assets available for benefits totalled $36.5 million at December 31, 2009. Diversification of the Plan's assets helps to maximize the return on Plan assets and to minimize the impact of volatility in specific segments within the capital markets.

PLAN GOVERNANCE

Overall governance and administration of the Plan resides with SGI. The Superannuation Plan Committee (the Committee), which makes recommendations to the SGI Board of Directors, acts on and decides all matters pertaining to administration of the Plan. SGI Board members are appointed by Order in Council pursuant to *The Saskatchewan Government Insurance Act, 1980*.

The role of the Board and the Committee are set out in the plan text.

The Board is responsible for:

- Approving amendments to the Plan, as referred by the Committee.
- Appointing members to the Committee pursuant to the structure of the Committee.
- Approving the Plan funding policy and the Plan investment policy.
- Approving the appointment of the Plan actuary, investment managers and the investment consultant.
- Dealing with such other matters as may be referred to it by the Committee.
- In consultation with the Committee, interpreting the intent of the terms of the Plan in circumstances where its terms and conditions may be the subject of such interpretation.
- Standing in a fiduciary relationship to Members, Inactive Members, Pensioners and any other individuals entitled to benefits pursuant to the Plan.

The Committee is responsible for:

- Maintaining such records as are necessary to accurately calculate the benefits due to Members and Inactive Members in accordance with the terms of the Plan.
- Declaring interest rates, upon recommendation of the Actuary.
- Receiving all contributions and authorizing all benefit payments in accordance with the terms of the Plan.
- Providing annual statements to all Members and Inactive Members and keeping adequate accounts of the pension fund.
- Approving reciprocal agreements, amendments and conducting related correspondence.
- Safekeeping the Plan and amendments thereto.
- Recommending the approval of the investment policy and funding policy for the Plan's assets.
- Recommending the appointment of the Plan actuary, investment managers and the investment consultant.
- Ensuring the Plan is administered in accordance with its terms as registered.
- Approving or directing that pensions be paid directly from the pension fund.

- Filing annual information returns with the Superintendent of Pensions and the Canada Revenue Agency.
- Conducting correspondence with respect to the Plan as may be required.

Superannuation Plan Committee Composition

Ed Helm
Manager, Compensation and Benefits, SGI
Chair, SGI Superannuation Plan Committee

Jeff Stepan
Treasurer, Finance, SGI

Tim MacLeod
Senior Counsel – Injury, Legal, SGI

Nick Kapell
Member representative

Lydia Kapell
Supervisor, Benefit Administration, SGI
Secretary, SGI Superannuation Plan Committee

Superannuation Plan Committee members serve in a voluntary capacity and do not receive compensation for their services from the Plan. The Plan covers any out-of-pocket expenses incurred by the Committee in the course of serving the Plan.

Plan Administration

Personnel at SGI administer the Plan on a day-to-day basis. Primary responsibility lies with the Manager, Compensation and Benefits, who is the Chair of the Committee. The Supervisor, Benefit Administration, acts as the Secretary for the Committee. Plan administrators are responsible for executing decisions made by the Committee and/or the Board of Directors within approved policies and directives. Administrators act as the primary contact for members and are responsible for reporting to the Committee on all aspects of Plan performance.

Investment Manager

The investment manager for the Plan is Greystone Managed Investments Inc. The Investment Manager implements an investment strategy based on the Plan's investment policy and reports their actual results compared to a benchmark to the Committee on a quarterly basis.

Investment Advisor

The Committee uses the services of Hewitt Associates to provide recommendations on the Plan's investment policy and objectives; an analytical review of the investment portfolio; and, an independent third-party review of the Investment Manager's performance relative to peers and the Plan's benchmark portfolio. The Investment Advisor monitors risk characteristics and comments on the performance of the investments of the Plan and advises the Committee on overall investment policy and management that would best achieve the Plan's objectives.

Custodian

The Plan's custodian, RBC DEXIA, holds custody of the assets of the Plan and is responsible for executing investment transactions and collecting income. The Custodian ensures that investment income is collected and provides record-keeping services for the Plan.

Actuary

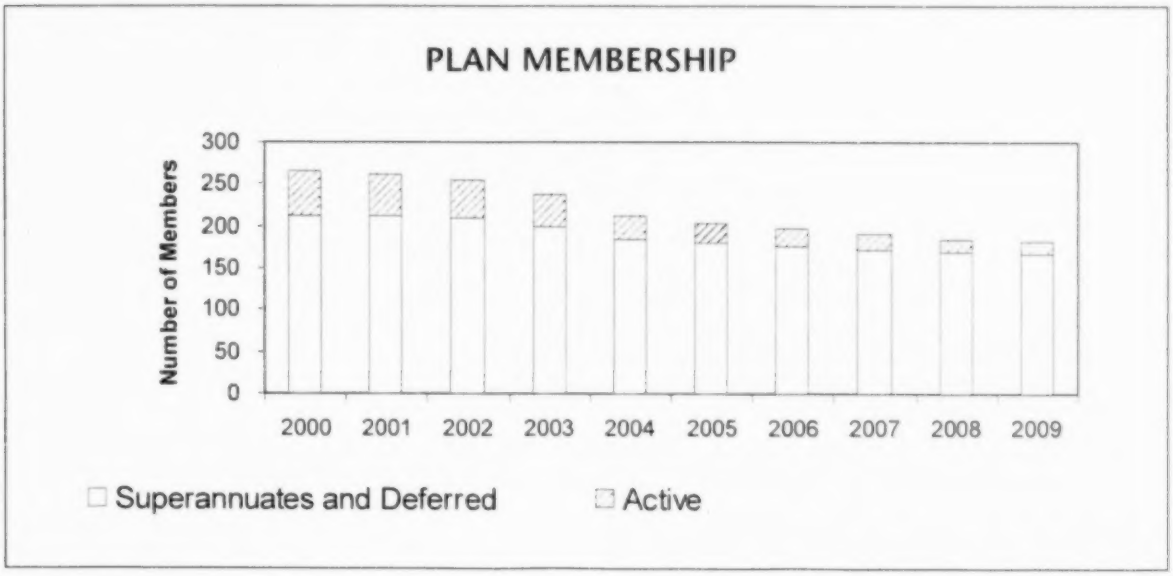
Aon Consulting Inc. prepares accounting and funding valuations at least every three years. In the intervening years, extrapolations are prepared for accounting purposes, and as required by Management for funding purposes. December 31, 2007 is the most recent actuarial valuation for funding with the next valuation to take place in 2011 for the year ended December 31, 2010. An extrapolation of the December 31, 2007 valuation has been performed for accounting purposes for the Plan's audited December 31, 2009 financial statements. The Actuary also provides the Committee with information regarding administration of the Plan, and makes recommendations related to policies on benefits and funding.

Auditor

The Plan's external auditor, KPMG LLP, is contracted to perform an annual audit of the Plan's financial statements. Management of SGI prepares the financial statements for review and approval by the Committee and the SGI Board of Directors. The audit focuses on the existence, completeness and valuation of the Plan assets; the measurement of the Plan's income and expenses; and the fairness of presentation in accordance with Canadian generally accepted accounting principles. Their professional opinion on the Plan's financial statements is found in their auditors' report included in this annual report.

PLAN DEMOGRAPHICS

The Plan has been closed to new members since January 1, 1980. In 2009 there were 166 (2008 –167) people receiving a pension, 2 (2008 – 2) people eligible for a deferred pension and 14 (2008 – 15) active members.



INVESTMENT HIGHLIGHTS

Investment Strategy

The investment objective of the Plan is to prudently manage the Plan's assets to assist in avoiding actuarial deficits and excessive volatility in annual rates of return. Considerations include growth in liabilities from active members combined with providing pension supplements to offset inflation. Based on these factors, the Plan can assume a low to moderate level of investment risk to achieve income and growth objectives. Accordingly, a diversified long-term asset mix strategy with a bias to fixed income investments is warranted.

Investment Policy

The Plan has a Statement of Investment Policies and Objectives (the Policy) approved by the SGI Board of Directors. The Policy reflects the philosophy of diversification and protection of capital and provides guidance to the investment manager. The purpose of the Policy is to outline investment principles, guidelines and monitoring procedures that are appropriate for Plan governance. The Policy conforms to applicable legislation and the specific characteristics of the Plan.

The Policy has set a target mix of 40% equity and 60% fixed income (2008 – 40% equity and 60% fixed income). The foreign equity content target is set at 24% (2008 – 24%). The actual mix at any one time, however, may differ from this target within ranges specified in the Policy due to fluctuations in the market.

The investments of the Plan must comply with the requirements and restrictions imposed by applicable legislation, including but not limited to the requirements of *The Saskatchewan Pension Benefits Act, 1992*, which refers to the federal *Pension Benefits Standards Act, 1985*, on investment related issues, the *Income Tax Act* and its related *Regulations*, and all subsequent amendments. In general, the Investment Manager may, within its mandate, invest the Plan assets in any of the approved asset classes that meet certain minimum quality standards. These asset classes primarily include:

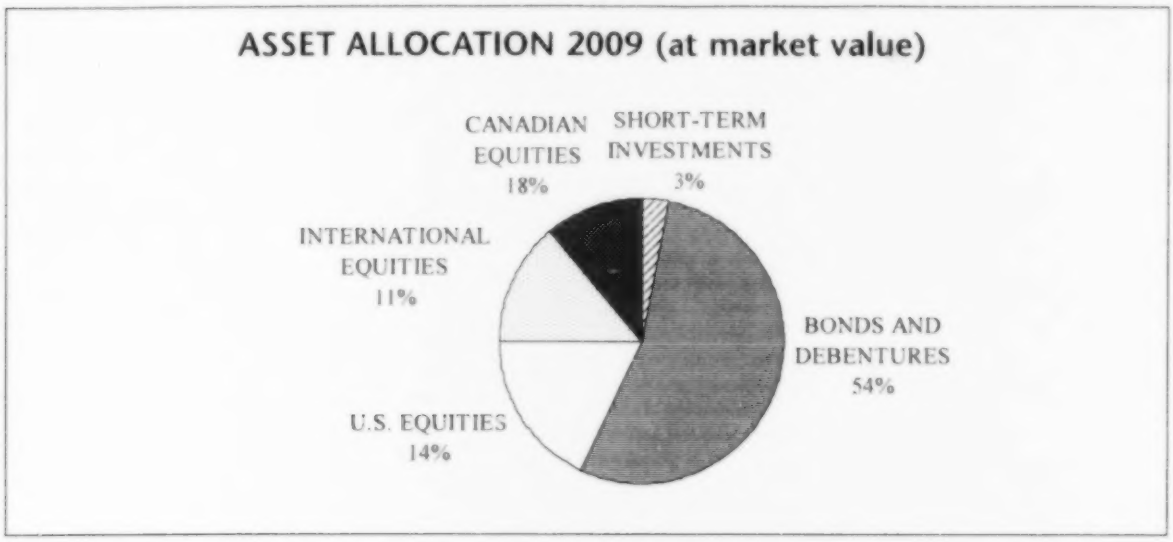
- Short-term investments with minimum quality standard of "R-1" or equivalent.
- Bonds with minimum quality standard of "BBB" or equivalent.
- Equity investments should be in relatively high-quality portfolios and be limited to stocks that are publicly traded on a recognized securities market.

Monitoring Plan performance is a key activity in supporting the investment objectives. The Policy outlines a benchmark portfolio comprised of various asset classes. The Plan's primary objective is to achieve a rate of return superior to the rate of return earned on the following benchmark portfolio asset mix:

BENCHMARK PORTFOLIO COMPOSITION

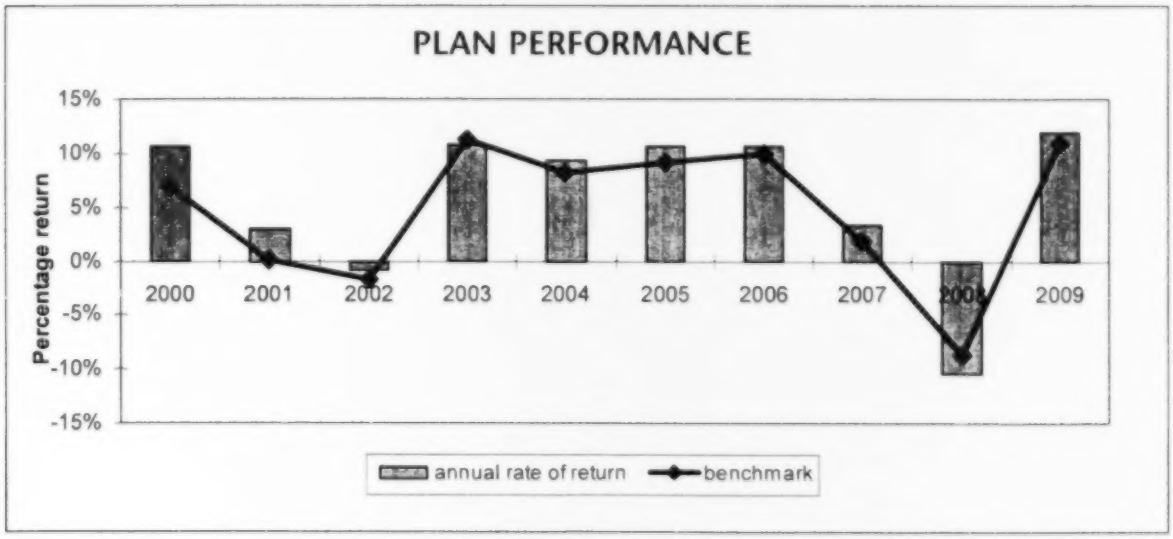
ASSET CLASS	MARKET INDEX	TARGET WEIGHT	ACTUAL WEIGHT	TARGET RANGE
Short-term investments	91 day Treasury Bills	5%	3%	3-20%
Bonds	DEX Universe Bond Index	55%	54%	40-70%
Canadian equities	Standard & Poor's/TSX Capped Composite Index	16%	18%	10-30%
U.S. equities	Standard & Poor's 500 Index (Cdn. $)	12%	14%	Total foreign 18-30%
Non-North American equities	Morgan Stanley Capital (MSCI) EAFE Index (Cdn. $)	12%	11%	
Total Fund		**100%**	**100%**	

A secondary objective is to exceed the benchmark index in each of the asset classes in which the investment manager invests. The actual allocation of assets in 2009 conformed to the guidelines of the Policy as shown in the following graph:

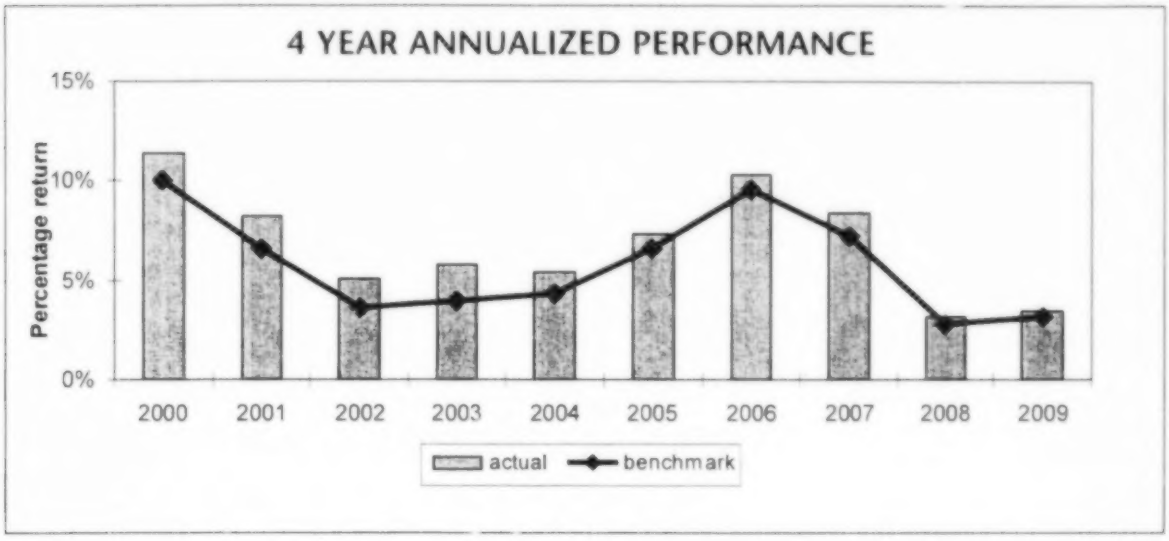


Investment Performance

The Plan's performance is measured by comparing its return to that of the benchmark portfolio. The Plan's return in 2009 was 11.9% (2008 – negative 10.5%), 1.0% higher than the benchmark rate of return of 10.9% (2008 – negative 8.7%). The following graph illustrates how annual returns fluctuate from year to year and from the related benchmark:

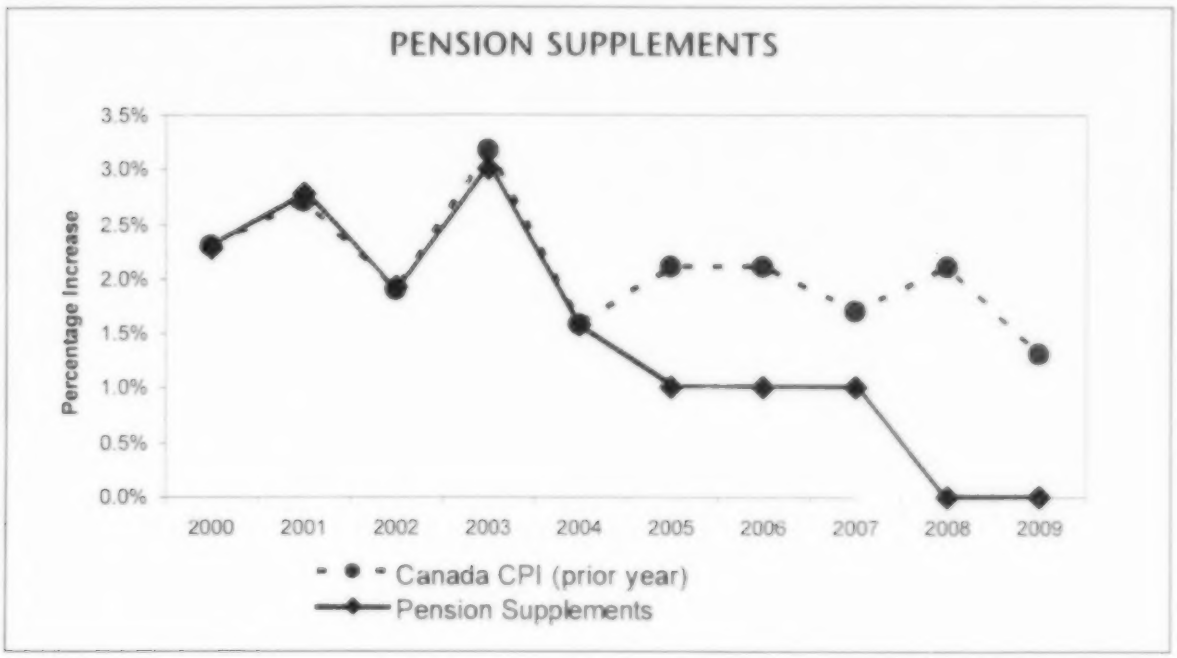


A common measurement statistic used by the pension fund industry is to calculate a pension fund's performance on a four-year cycle. This longer-term measure has greater relevance and lower volatility than a one-year measurement. Over the four-year period from 2006 to 2009, the Plan averaged an annual return of 3.5%, 0.3% higher than the benchmark's return of 3.2%. The following graph shows that the Plan's four-year annualized performance has exceeded its benchmark every year since 1999:



PENSION SUPPLEMENTS

The Plan's pension benefits are not formally indexed for inflation, although the Plan has approved pension supplements from time to time, which are annual increases subject to the solvency position of the Plan and limitations imposed by the *Income Tax Act* (Canada). The Committee reviews the Plan's funded status annually to assess the viability of pension supplements and provides a recommendation to the Corporation for approval. Given the financial results during the year, no supplement was approved for 2009. The following graph highlights pension supplements for the last 10 years in comparison to the Canadian Consumer Price Index (CPI).



FINANCIAL HIGHLIGHTS

Net Assets Available for Benefits

The Plan's net assets available for benefits totalled $36,491,000 (2008 – $35,533,000), a net increase of $958,000 from the previous year, detailed as follows:

CHANGE IN NET ASSETS AVAILABLE FOR BENEFITS

Income	2009	2008
Investment income	$ 1,275,000	$ 1,421,000
Change in market values of investments	2,693,000	(5,689,000)
Contributions – employee	49,000	65,000
Contributions – employer	96,000	133,000
	4,113,000	(4,070,000)
Expenditures		
Benefits and termination refunds	3,008,000	3,040,000
Administrative expenses	44,000	118,000
Investment expenses	103,000	117,000
	3,155,000	3,275,000
Increase/(decrease) in net assets available for benefits	$ 958,000	$ (7,345,000)

Investment income for 2009 is $1,275,000, which is a decrease of $146,000 from 2008. The decrease in investment income is attributed to lower yields on fixed income investments. There was a swing of $8,382,000 in the market value of investments, due largely to a turnaround in the market value for equities throughout most of 2009, as compared to the severe losses in the equity markets in the fall of 2008.

The total expenditures for the year decreased $120,000 compared to 2008. Pension benefits paid out in 2009 were $3,008,000, roughly comparable to $3,040,000 paid in 2008. Administrative and investment expenses represent fees paid to the investment manager, investment consultant, custodian, auditor and the actuary for managing and recording the Plan's investments and monitoring the financial status of the Plan. These expenses decreased by $88,000 in the current year as a result of fewer actuarial consulting expenses in 2009 compared to 2008, as a funding valuation was prepared in 2008 using December 31, 2007 data.

Accrued Pension Benefits

The obligation of a defined benefit pension plan is to fulfil its pension promise of providing benefit payments to all members. To estimate the obligation of a defined benefit pension plan, an actuarial valuation is performed on a regular basis.

The actuarial valuation involves estimating the total funds required today, which, together with future investment returns, will be sufficient to meet all required benefit payments. The total amount of funds required today is known as a plan's actuarial liability or the present value of accrued pension benefits. It is compared to the market value of a plan's assets to determine the level of surplus assets or the level of deficit (where the actuarial liability exceeds the assets).

An actuarial valuation is conducted at a minimum every three years to ensure a plan's assets and contribution levels are adequate to provide long-term benefits. This is commonly referred to as a "funding valuation". As SGI is responsible for providing retirement benefits, the funding valuation is used to determine the amount of contributions that SGI is required to deposit into the Plan each year. The December 31, 2005 funding valuation that was completed during 2006 determined that the surplus position of the Plan had been substantially reduced. That funding valuation required SGI to begin employer contributions and those commenced in October 2006. The December 31, 2007 funding valuation that was completed in 2008 resulted in a further increase to the contribution rate by SGI, effective October 2008, to ensure adequate funding to provide long-term benefits.

In addition to the funding valuation, a separate valuation is prepared to determine information for a plan's financial statements. This is commonly known as an "accounting valuation". It is important to note the actuarial assumptions used in the funding valuation may be different than those used in the accounting valuation.

Actuarial Methodology and Assumptions

In completing an actuarial valuation, certain future events must be considered. A number of assumptions are made and the future events are deemed to occur according to these assumptions. For the purpose of this annual report, the accounting valuation is based on an extrapolation of the 2007 valuation.

To value the liabilities for the accounting valuation, the actuary examines the Plan's demographics such as age, length of service and salary ranges of the membership. Information is processed on active members, deferred members and pensioners and surviving spouses who receive benefits from the Plan. In addition, mortality, disability and termination of employment data are reviewed and factored into the valuation assumptions. A summary of some of the key assumptions used in the accounting valuation follows:

ACCOUNTING VALUATION ECONOMIC ASSUMPTIONS

	2009	2008
Discount rate – beginning of period	7.50%	5.50%
Discount rate – end of period	5.30%	7.50%
Expected rate of return on plan assets	6.25%	6.25%
Inflation rate	2.50%	2.50%
Expected salary increase	2.50%	3.50%
Post-retirement index	–	50% of CPI

While the actuarial assumptions used to estimate the Plan's liabilities are a best estimate of future events, it is inevitable that the Plan's future experience will differ from the estimates. Any differences between the actuarial assumptions and future experience will emerge as gains or losses and will affect the surplus or deficit position of the Plan. The changes in assumptions made in 2009 resulted in an increase of $1,986,000 to accrued pension benefits, as reported in the Plan's Statement of Changes in Accrued Pension Benefits. There were no experience gains or losses reported during the year.

Plan Surplus/Deficit

Based on the actuarial valuation performed as at December 31, 2007, and extrapolated to December 31, 2009, the Plan's financial position, for accounting purposes only, indicates a plan deficit as follows:

	2009	2008
Fair value of net assets available for benefits	**$ 36,491,000**	$ 35,533,000
Present value of accrued pension benefits	**37,194,000**	35,531,000
Plan Surplus/(Deficit)	**$ (703,000)**	$ 2,000

ACTUARIAL OPINION

To the Members of the SGI Superannuation Plan Committee

With respect to The Contributory Superannuation Plan for the Employees of Saskatchewan Government Insurance, we have prepared an actuarial extrapolation as at December 31, 2009, based on the actuarial valuation as at December 31, 2007, for the purpose of determining the necessary actuarial information for financial statement reporting in accordance with Section 4100 of the CICA Handbook. In my opinion, for the purpose of this actuarial extrapolation:

- the data on which this extrapolation is based are sufficient and reliable;
- where applicable, the assumptions have been adopted as management's best estimates for accounting purposes and consequently I have not rendered a specific opinion on them; however, in my opinion, the assumptions are in aggregate not unreasonable, when considering the circumstances of the plan and the purpose of the extrapolation;
- the actuarial cost methods, asset valuation methods and extrapolation methods employed are appropriate; and
- the extrapolation conforms with the requirements of Section 4100 of the Canadian Institute of Chartered Accountants.

Nonetheless, emerging experience differing from the assumptions will result in gains or losses which will be revealed in subsequent valuations.

This report has been prepared and this actuarial opinion has been given in accordance with accepted actuarial practice.

David R. Larsen
Fellow, Society of Actuaries
Fellow, Canadian Institute of Actuaries

February 24, 2010

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of net assets available for benefits, accrued pension benefits and surplus (deficit) of the Saskatchewan Government Insurance Superannuation Plan as at December 31, 2009, the statements of changes in net assets available for benefits and changes in accrued pension benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits, accrued pension benefits and surplus of the Plan as at December 31, 2009 and the changes in net assets available for benefits and accrued pension benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 24, 2010

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS, ACCRUED PENSION BENEFITS AND SURPLUS/(DEFICIT)

As at December 31

	2009	2008
	(thousands of $)	
ASSETS		
Investments (Note 3)		
Bonds and debentures	$ 19,549	$ 19,052
Short-term investments	999	1,612
Pooled equity fund	4,129	4,031
Equities	11,512	10,549
	36,189	35,244
Accrued interest and dividends	161	193
Cash	175	104
TOTAL ASSETS	**36,525**	35,541
LIABILITIES		
Accounts payable	34	8
NET ASSETS AVAILABLE FOR BENEFITS	**36,491**	35,533
ACCRUED PENSION BENEFITS (Note 7)	**37,194**	35,531
SURPLUS/(DEFICIT)	**$ (703)**	$ 2

(See accompanying notes)

Approved by the Board of Directors:

Warren Sproule, Q.C.
Chairperson, Board of Directors

Anne M. Lavack
Director

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year Ended December 31

	2009	2008
	(thousands of $)	
INCREASE IN ASSETS		
Investment income (Note 4)	$ 3,968	$ –
Employee contributions (Note 1(b))	49	65
Employer contributions (Note 1(b))	96	133
TOTAL INCREASE IN ASSETS	**4,113**	198
DECREASE IN ASSETS		
Investment loss (Note 4)	–	4,268
Pension benefits	3,008	3,040
Direct expenses (Note 8)	44	118
Investment expenses	103	117
TOTAL DECREASE IN ASSETS	**3,155**	7,543
INCREASE/(DECREASE) IN NET ASSETS	**958**	(7,345)
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	35,533	42,878
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	**$ 36,491**	$ 35,533

(See accompanying notes)

STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

Year Ended December 31

	2009	2008
	(thousands of $)	
ACCRUED PENSION BENEFITS, BEGINNING OF YEAR	$ 35,531	$ 41,403
INCREASE IN ACCRUED PENSION BENEFITS		
Interest on accrued benefits	2,559	2,205
Change in actuarial assumptions (Note 7)	1,986	–
Experience loss (Note 7)	–	419
Pension benefits accrued	126	235
	4,671	2,859
DECREASE IN ACCRUED PENSION BENEFITS		
Pension benefits	3,008	3,040
Change in actuarial assumptions (Note 7)	–	5,691
	3,008	8,731
ACCRUED PENSION BENEFITS, END OF YEAR	$ 37,194	$ 35,531

(See accompanying notes)

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

1. DESCRIPTION OF PLAN

The following description of the Saskatchewan Government Insurance Superannuation Plan (the Plan) is a summary only. For more complete information, reference should be made to the Plan Text.

(a) General

The Plan is a contributory defined benefit pension plan covering some employees of Saskatchewan Government Insurance (SGI). This Plan is operated pursuant to Section 17 of *The Saskatchewan Government Insurance Act, 1980*. Since 1980, new employees hired are required to join the Capital Pension Plan, a defined contribution pension plan. The Superannuation Plan Committee (the Committee) is comprised of four members that act on and decide all matters pertaining to the administration of the Plan. The Committee also makes recommendations to SGI's Board of Directors as overall governance and administration of the Plan resides with SGI.

(b) Funding Policy

(i) SGI and plan members make contributions to the Plan. SGI contributes such amounts as recommended by the actuary in order that the benefits under the Plan may be properly funded. Employees contribute 6.5% of earnings less a portion of their contributions to the Canada Pension Plan.

(ii) SGI provides funding to the Plan based on the recommendation of the actuary until the next funding valuation has been completed and filed with the regulatory body in 2011. The employer funding rate for 2009 was 230% (2008 – 215% from January 1 to September 30, 223% from October 1 to December 31) of the required employee contributions.

(c) Service Pensions

The Plan provides a full pension at retirement calculated as 2% of a member's average earnings during the five years of highest earnings, multiplied by the total number of years of service to a maximum of 35 years. Plan members who are less than age 65 and have completed 30 years of service may select early retirement with no reduction to pension. Plan members who are less than age 65 and have less than 30 years of service may select early retirement with a reduced pension. At age 65, members' pensions are reduced due to integration with the Canada Pension Plan.

(d) Disability Pensions

The Plan provides for early retirement when a plan member is permanently incapable, due to medical reasons, of performing their regular job duties.

(e) Survivors' Pension

The type of pension selected by the plan member will determine the amount, if any, to be paid as pension to the survivor.

(f) Death Refunds

A death refund is payable to the estate of a pensioner or survivor where such pensions have not been paid to their full extent and plan conditions permit.

In a similar manner, a death refund is payable to the spouse, if any, otherwise to the estate or designated beneficiary of a member where the member is not a pensioner.

(g) Termination Refunds

When a member ceases to be employed by SGI, subject to lock-in provisions, termination refunds with interest are payable.

(h) Income Taxes

The Plan is a registered pension plan as defined in the *Income Tax Act* and is not subject to income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Plan are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

(a) Changes in Accounting Standards

In June 2009, the Canadian Institute of Chartered Accountants (CICA) issued amendments to its Financial Instruments – Disclosure standard to expand disclosures of financial instruments consistent with new disclosure requirements made under International Financial Reporting Standards. These amendments were effective for the Plan commencing January 1, 2009, and introduces a three-level fair value hierarchy that priorizes the quality and reliability of information used in estimating the fair value of financial instruments.

The fair values for the three levels are based on:

- Level 1 – quoted prices in active markets.
- Level 2 – models using observable inputs other than quoted market prices.
- Level 3 – models using inputs that are not based on observable market data.

These additional disclosures are included in note 3.

(b) Basis of Presentation

These financial statements are prepared on a going concern basis and present the financial position of the Plan as a separate entity independent of SGI and Plan members. They are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal period, but they do not portray the funding requirements of the Plan or the benefit security of individual plan members.

(c) Investments

Bonds and debentures, pooled equity fund, money market instruments and equities are recorded at fair value, based on year-end market closing bid prices. Transactions are recorded as of the trade date. The Plan recognizes income from dividends when declared, interest as earned and pooled equity fund income when a distribution is declared.

(d) Foreign Currencies

Foreign currency transactions are translated into Canadian dollars using exchange rates in effect on the transaction date. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at year-end. Exchange gains or losses arising on the translation of monetary assets and liabilities or sale of investments are included in investment income.

(e) Measurement Uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation process is related to the actuarial determination of the accrued pension benefits (note 7).

(f) Future Accounting Policy Changes

SGI commenced an IFRS conversion project in 2008 for it, its subsidiaries and the Plan to assess the potential impacts of the transition and developed a detailed project plan to ensure compliance with the new standards. The conversion project is progressing according to the project plan. At this time, the impact on the Plan's future financial position and results of operations is not reasonably determinable.

3. INVESTMENTS

The Plan's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of investment assets in equities, corporate bonds and debentures and the pooled equity fund. Details of significant terms and conditions of investments are as follows:

(a) Bonds and debentures

Bonds and debentures invested by the Plan have a minimum BBB rating (including all sub-rating levels within the overall BBB rating) or equivalent as rated by at least two of three recognized bond-rating agencies operating in Canada, at the time of purchase.

The fair value and average effective interest rates are shown in the following table by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Interest is generally receivable on a semi-annual basis.

	(thousands of $)			
	2009		2008	
Term to Maturity (years)	Fair Value	Average Effective Rates	Fair Value	Average Effective Rates
Government of Canada:				
Less than one	$ –	–	$ 1,368	4.0%
After one through five	3,077	3.0%	1,632	3.7%
After five	2,131	3.0%	451	3.1%
Province of Saskatchewan:				
After five	544	5.1%	606	5.0%
Canadian provincial and municipal:				
After one through five	366	5.1%	649	5.2%
After five	4,436	5.1%	4,918	5.1%
Canadian corporate:				
Less than one	343	5.3%	255	3.4%
After one through five	3,660	4.7%	3,907	5.0%
After five	4,992	5.6%	5,266	5.4%
Total bonds and debentures	$ 19,549		$ 19,052	

For bonds and debentures, the fair values are considered to approximate quoted market values on recognized exchanges, based on the latest closing bid prices.

(b) Short-term investments

Short-term investments, which are comprised of treasury bills and commercial paper, have an average effective interest rate of 0.26% (2008 – 1.52%) and an average remaining term to maturity of 59 days (2008 – 32 days). The Plan's investment policy states that these investments must meet the minimum investment standard of R-1 or equivalent as rated by a recognized bond rating agency operating in Canada, at the time of purchase.

Carrying amounts for short-term investments approximate fair value due to the immediate or short-term nature of these financial instruments.

(c) Pooled equity fund

The Plan owns units in an international pooled equity fund, which has no fixed distribution rate and its return is based on the success of the fund manager.

The fair value of the pooled equity fund is considered to approximate quoted market values of the underlying investments, based on the latest closing bid prices.

(d) Equities

Equities have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on a quarterly basis. The average effective dividend rate is 1.92% (2008 – 2.66%).

Included in equities are shares denominated in United States dollars with a carrying value of $4,951,000 (2008 – $5,342,000).

The fair values of equities are considered to approximate quoted market values on recognized stock exchanges, based on the closing prices.

(e) Fair value hierarchy

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation. All of the investments held by the Plan are measured at fair value using quoted market prices, which is the highest level of reliability of fair value.

4. INVESTMENT INCOME (LOSS)

The components of investment income (loss) are as follows:

	(thousands of $)	
	2009	2008
Increase (decrease) in market value of investments	$ 3,654	$ (5,662)
Interest	928	1,133
Dividends	347	288
Net realized loss on sale of investments	(961)	(27)
Investment income (loss)	$ 3,968	$ (4,268)

Included in the investment income (loss) is interest of $27,000 (2008 – $25,000), a decrease in market value of $2,000 (2008 – decrease of $5,000) and a realized gain on sale of $1,000 related to Province of Saskatchewan bonds and debentures.

5. FINANCIAL RISK MANAGEMENT

The nature of the Plan's operations result in a statement of net assets available for benefits, accrued pension benefits and surplus (deficit) that consists primarily of financial assets and liabilities. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Plan's investments. These financial risks are managed by having an investment policy (note 3), which is approved annually by the SGI Board of Directors. The investment policy provides guidelines to the Plan's investment managers for the asset mix of the portfolio and regarding quality and quantity of debt and equity investments. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets.

Credit risk

The Plan's credit risk arises primarily from certain investments. The maximum credit risk to which it is exposed at December 31, 2009 is limited to the carrying value of the financial assets summarized as follows:

	(thousands of $)	
	2009	2008
Cash	$ 175	$ 104
Accrued interest and dividends	161	193
Bonds and debentures	19,549	19,052
Short-term investments	999	1,612

In addition, the Plan is exposed to credit risk associated with its securities lending program as described separately in the notes to the financial statements.

Credit risk within investments is primarily related to bonds and debentures and money market instruments. It is managed through the investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds is BBB, and for money market instruments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for bonds and debentures are as follows:

	(thousands of $)			
	2009		2008	
Credit Rating	Fair Value	Makeup of Portfolio	Fair Value	Makeup of Portfolio
AAA	$ 8,246	42.2%	$ 4,971	26.1%
AA	5,368	27.5%	6,360	33.4%
A	4,858	24.8%	6,675	35.0%
BBB	1,077	5.5%	1,046	5.5%
Total	$ 19,549	100%	$ 19,052	100%

Within bond and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bonds and debentures and money market investment portfolios. No one holding of a province is over 7% of the market value of the bond and debentures portfolio.

Through its custodian, the Plan participates in an investment security lending program. Collateral of at least 102% of the market value of the loaned securities is held for the loan. This collateral is marked to market on a daily basis. In addition, the custodian provides indemnification against any potential losses in the securities lending program. At December 31, 2009, the Plan had $3,576,000 (2008 – $4,026,000) of securities loaned under the program and held collateral of $3,840,000 (2008 – $4,280,000).

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Plan is exposed to changes in interest rates in its bonds and debentures and money market instruments. It is estimated that a 100 basis point increase/decrease in interest rates would decrease/increase net assets available for benefits by $1.3 million at December 31, 2009 (2008 – $1.2 million), representing 6.2% (2008 – 5.6%) of the $20.5 million (2008 – $20.7 million) fair value of these investments.

Foreign exchange risk

The Plan is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. denominated investments. Also, the Plan is exposed to Europe, Australasia and Far East (EAFE) currencies through its investment in the pooled equity fund. Exposure to both U.S. equities and non-North American equities is limited to a maximum 30% of the market value of the total investment portfolio. At December 31, 2009, the Plan's exposure to U.S. equities was 13.7% (2008 – 15.2%) and its exposure to non-North American equities was 11.4% (2008 – 11.4%).

At December 31, 2009, a 10% appreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $0.5 million decrease in net assets available for benefits and surplus. A 10% weakening in the Canadian dollar versus the EAFE currencies would result in approximately a $0.4 million increase (2008 – $0.4 million increase) in the net assets available for benefits.

No more than 10% of the market value of the bonds and debentures portfolio shall be invested in bonds of foreign issuers. Such bonds, however, must be denominated and payable in Canadian dollars. As such, the Plan is not subject to foreign exchange risk in its fixed income investments.

Equity price risk

The Plan is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. Equities comprise 43.2% (2008 – 41.4%) of the carrying value of the Plan's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Plan's common share portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Plan's equity price risk can be assessed using Value at Risk (VaR), a statistical technique that measures the potential change in an equity asset class. The following calculations are based on volatility over a four-year period, using a 95% confidence level. As such, it is expected that the annual change in the portfolio market value will fall within the range outlined in the following table 95% of the time (19 times out of 20 years).

	(thousands of $)	
Asset Class	**2009**	2008
Canadian equities	+/- 2,493	+/- 1,895
Non-North American equities	+/- 1,404	+/- 1,225
U.S. equities	+/- 1,228	+/- 1,250

Liquidity risk

Liquidity risk is the risk that the Plan is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows.

6. INVESTMENT PERFORMANCE

The Plan's long-term investment performance objective is to achieve continued growth while avoiding unfunded liabilities and excessive volatility in annual rates of return. Continued growth remains a consideration in funding the liabilities associated with the active members, as well as to provide ad hoc benefit increases to offset the impact of inflation. Based on these factors, the Plan can assume a low to moderate level of investment risk to achieve its investment objectives. Accordingly, a diversified long-term asset mix strategy with a bias to fixed income is warranted.

The investment manager makes day-to-day decisions on whether to buy or sell specific investments in order to achieve the long-term investment performance objectives established in the investment policy. It is these long-term investment performance objectives that are used to assess the performance of the investment manager.

The investment performance of the Plan is monitored against the performance of the benchmark portfolio over rolling four-year periods.

The following is a summary of the Plan's investment performance:

	Annual Return		Rolling Four-Year Average Annual Return	
	2009	2008	**2009**	2008
Actual rate of return	11.9%	(10.5%)	3.5%	3.2%
Target rate of return	10.9%	(8.7%)	3.2%	2.8%

7. ACCRUED PENSION BENEFITS

The present value of accrued pension benefits was determined using the projected benefit method prorated on service and management's best estimate assumptions. Aon Consulting Inc. performed the actuarial valuation as at December 31, 2007, and extrapolated it to December 31, 2009, for accounting purposes.

Measurement of the present value of accrued pension benefits is uncertain, as estimates must be made of future interest rates, inflation rates and post-retirement index rates. For purposes of this actuarial valuation, long-term assumptions used include:

ECONOMIC ASSUMPTIONS:	2009	2008
Discount rate – beginning of period	7.50%	5.50%
Discount rate – end of period	5.30%	7.50%
Expected return on plan assets	6.25%	6.25%
Inflation rate	2.50%	2.50%
Expected salary increase	2.50%	3.50%
Post-retirement index	–	50% of CPI
Remaining service life of active members in years (EARSL)	3	3

The following table shows the change in the accrued pension benefits if the assumptions were modified:

Assumption	Change Made	Change in Accrued Pension Benefits ($000)	Change in Accrued Pension Benefits (%)
1. Discount rate	Plus 1%	($2,660)	(7.2%)
	Minus 1%	$3,143	8.4%
2. Inflation rate	Plus 1%*	$83	0.2%
	Minus 1%*	($74)	(0.2%)
3. Post-retirement indexing	Plus 10% of CPI	$733	2.0%
	Minus 10% of CPI	N/A	N/A

*The discount rate has not been changed under these scenarios. Only the salary scale, yearly maximum pensionable earnings scale and Income Tax Act Maximum Pension Scale were changed.

The fair value of the accrued pension benefits has not been determined, as it is impracticable to determine it with sufficient reliability.

8. RELATED PARTY TRANSACTIONS

The costs to administer the Plan are borne by SGI, the Plan administrator, and are not reflected in these financial statements. Direct out of pocket expenses of the Plan, including audit, actuarial, custodial, investment management and investment consulting fees are paid by the Plan.

Other related party transactions are described separately in the notes.

9. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial assets and liabilities, other than investments (note 3) and accrued pension benefits (note 7) approximate carrying value due to their immediate or short-term nature.

10. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2008 balances have been reclassified to conform to 2009 financial statement presentation.